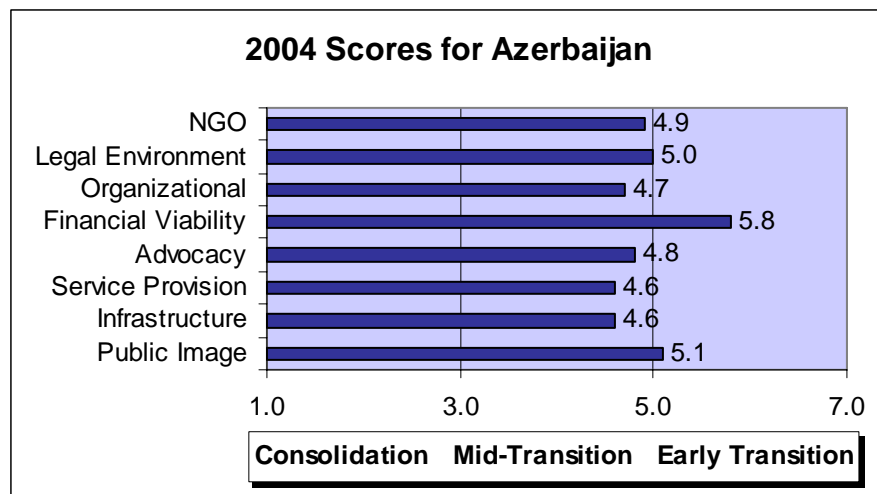
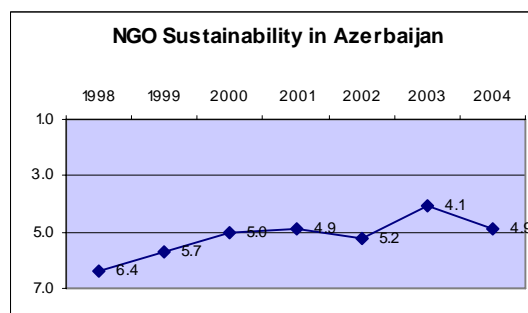

AZERBAIJAN

**Capital:** Baku**Polity:** Republic**Population:**
7,870,000**GDP per capita
(PPP):** \$3,400**NGO SUSTAINABILITY 2004: 4.9**

The NGO sector's overall sustainability and capacity has not changed significantly over the past year. The sector consists of approximately 2,000 NGOs, 1,600 registered and 400 unregistered, of which only about 400 are active and visible. Of those 400 that are active and visible, only a small number are well-established, financially viable, and have reasonably developed organizational capacity. In general, these well-developed NGOs also have good relations with donors, and to a lesser extent the government and private sector. The majority of all other NGOs have yet to achieve a sustainable level of development.

Implementation of the legal framework remains a major obstacle to NGO sector development. The Law on State Registration was amended in 2003, but many NGOs are still unable to register. Amendments to the Law on Grants

became effective in 2003, creating new operational and financial hurdles, such as requiring NGOs to register all grants. The amendments also require NGOs to pay 27% of their consolidated payroll into the Social Insurance Fund, threatening the financial viability of many NGOs.



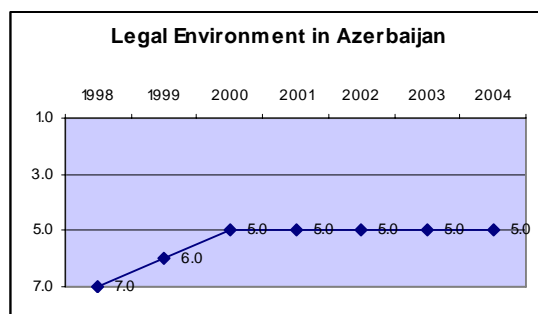
The NGO sector provides a wide variety of services in the areas of humanitarian relief, environmental protection, gender, youth, human rights, civic and legal education, and economic development. However, the majority of NGOs still depends on donor

funding and consider donor priorities as much as they do the needs of their constituents. NGOs in general are still not very successful advocates, and lack the capacity to effectively engage in advocacy initiatives on a wide scale. Their

underdeveloped support structures, inter-sectoral competition, weak relationships with constituents, and lack of positive public image limit the NGO sector's influence over public policy.

LEGAL ENVIRONMENT: 5.0

The NGO legal framework currently consists of: the NGO Law of June 2000, the Grants Law of 1998, the Tax Code of 2000, the Civil Code of 1999, the Law on State Registration of Legal Entities of 2003, and the Ministry of Justice regulations on NGO registration. Most NGO representatives consider the laws as written to be satisfactory, despite inconsistencies and ambiguities. Their primary complaint with the legal framework is that interpretation and application vary according to the government officials and NGOs involved.



Registration of NGOs, which has been de facto suspended for the past few years, was supposed to be addressed by the December 2003 Law on State Registration of Legal Entities (1996). While official numbers are hard to find, the anecdotal evidence suggests that there has been little improvement, and that few NGOs have successfully registered in the past year.

In theory, NGOs are able to operate freely. Unfortunately, inconsistent application of the law creates restrictions according to affiliations, activities, and geographic area of operation. The ban on NGO participation in political activities has been applied so inconsistently and at times so broadly, that it has had a chilling effect on NGOs engaged in advocacy activities. While most NGO leaders claim they are free to criticize public policy, many admit that they choose their words carefully.

The number of local attorneys trained in NGO law is limited, and the majority of those who are trained work for Baku-based non-profit legal organizations. Outside of the capital, access to reliable attorneys is inconsistent. Most legal services are provided through legal centers and short-term projects associated with organizations like the Center for Legal and Economic Education (CLEE), the Legal Education Society (LES), and the Azerbaijan Young Lawyers Union (AYLU).

In 2003, amendments to the Law on Grants became effective, requiring that NGOs register their grants. While this has created logistical problems, as registration documents must be translated, notarized, and submitted to the Ministry of Justice, it has not prevented the majority of NGOs from receiving or using foreign grants. Nevertheless, NGOs fear that if they register their grants, they may be targeted

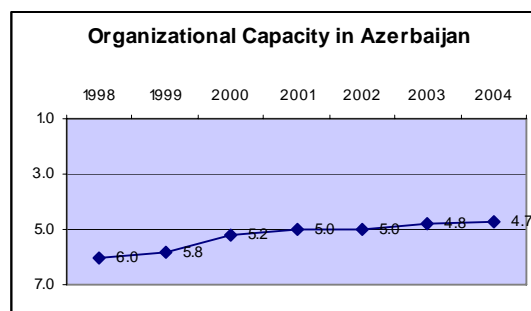
by the tax authorities, and are therefore reluctant to register. Also of great concern to the NGO community, the law now requires that an organization pay 27% of its monthly consolidated payroll into the Social Insurance Fund. While the requirement is not unreasonable on its face, it is imposed in addition to an income tax of between 30-35%, such that NGOs pay approximately 60% of salaries in tax. This high rate of taxation not only discourages employees from working for NGOs, which are not able to pay high salaries to start with, but also impedes philanthropy, as donors are reluctant to give when significant portions of their funds will be used for taxes instead of programs. In some instances, grants are exempt from the Social Insurance Fund tax under bi-lateral agreements.

Other tax issues present obstacles to the NGO sustainability. “Non-commercial organizations” (NCOs) and charitable organizations are exempt from paying taxes on charitable money transfers, membership fees, donations, and grants. While NGOs are technically exempt from paying VAT on foreign grants, reimbursement is complicated and requires great persistence with the tax officials. NCOs and charitable organizations are permitted to engage in economic activities but the income is taxed like that of for-profit entities. Efforts to develop local philanthropy are frustrated by the lack of tax deductions or other incentives for individuals or corporations.

ORGANIZATIONAL CAPACITY: 4.7

The NGO sector remains largely donor driven, and constituency building is often limited to short-term projects. Few NGOs have yet to understand the importance and benefit of building long-term relationships with their constituencies.

Most NGOs are built around the leadership and control of a single charismatic leader, and managed in an authoritarian manner with little organizational structure. The exceptions are youth organizations and those founded by young leaders, which often have more of a democratic and participatory-styled structure. Though many NGOs have clearly defined missions, few have undertaken significant strategic planning, a problem that NGO leaders often attribute to donor dependency, lack of managerial experience, and the centralized nature of their decision-making processes.



NGOs continue to face staffing challenges. Though competition for grants and donor pressures are increasing recruitment and promotion of more qualified professionals, NGOs are often staffed with friends and family of the organization’s leadership. Those that do hire qualified professionals have trouble keeping them on staff due to funding shortages and project cycles. Employees often work for local NGOs long enough to gain the experience necessary to qualify for higher paying

positions with international NGOs or in the private sector. Some NGOs use volunteers to meet staffing needs for project implementation, but volunteer recruitment is hampered by negative public perception and the lack of recruiting experience. Volunteerism has increased among Azerbaijani youth, as noted in Ganja and Lankaran. The AYLU has created an internship program for Baku students to increase participation and staff their projects.

Though the NGO sector does enjoy improved access to office equipment and technology, many still do not have what

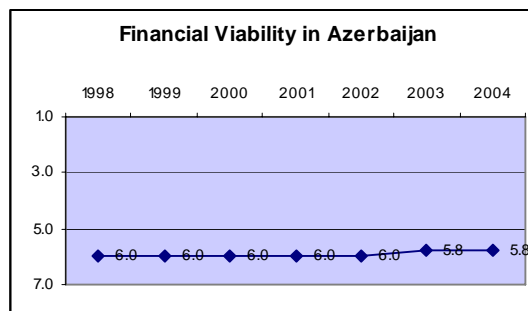
they need to operate effectively and efficiently. NGOs with support from foreign donors are more likely to have access to technology through their project grants or special programs designed to increase access to technology and equipment. NGOs based in the capital have better technology and equipment than those in rural areas. While funding is certainly an issue, rural NGOs face other obstacles such as inadequate infrastructure, inconsistent electricity supplies and unstable communication links, which limit the use of internet and other forms of communication.

FINANCIAL VIABILITY: 5.8

As local funding is still insubstantial, NGOs rely heavily on grants from international donors, such as the Eurasia Foundation, Open Society Institute, BP's community investment program, and small grant programs from the embassies. A few well-established NGOs have expanded their donor bases by developing relationships with donors and international networks of professionals and academics.

Generally, NGO representatives recognize that heavy dependence on international donors leaves their organization vulnerable. Many in the NGO community have been discussing ways to increase local support and diversify their funding. They have identified obstacles such as the lack of tax incentives for charitable giving, poor relations with local businesses, and negative public perceptions. The BP Community Investment Program -- a partnership between international and local

NGOs to address issues along the Baku-Tbilisi-Ceyhan pipeline corridor -- is considered by many to be a good model for encouraging business support of local NGOs.

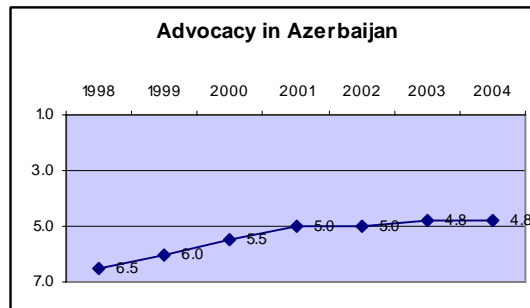


NGO financial management systems and internal controls remain weak, as few have well-defined financial management systems, produce annual reports or have independent audits. Many NGOs manage their finances according to different donor requirements, which can be challenging for those with several donors.

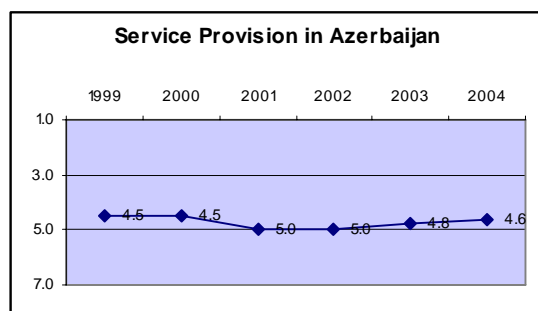
ADVOCACY: 4.8

NGOs increasingly understand the concept of advocacy, though several barriers still prevent the sector from having any real influence over public policy or the legislative process. The government has yet to create any significant public participation mechanisms, and when an NGO does communicate with government officials, it is through personal relationships. NGOs have partnered with the government on a few joint projects, but they are small in scale and the government remains the dominant partner. Competition and ego-driven management limit advocacy efforts by preventing NGOs from building important coalitions and campaigns to overcome the public's distrust of the sector.

International donors continue to focus resources on building NGO advocacy capabilities. USAID, for example, funded the CRS Azerbaijan Civil Society Development (ACSD) program. Other examples include advocacy skills trainings provided by the Public Interest Law Institute Initiative and the OSCE.



Though they often consider themselves well-positioned to influence public opinion and the public agenda, NGOs have limited experience and few successes. NGOs recently partnered with the CRS ACSD program to conduct six public awareness campaigns, which resulted in the presentation of several proposals to the government. The public interaction and identification of the appropriate government bodies were good experiences for all involved, but little of substance came of their efforts. Similarly, NGOs that engage in lobbying activities have enjoyed little success. The Election Monitoring Center, for example, lobbied unsuccessfully to have the restriction on NGO participation in election monitoring lifted. The lack of transparency in the legislative process leaves those outside the proceedings to react to legislation after it passes, rather than participating in shaping it.

SERVICE PROVISION: 4.6

Across Azerbaijan, NGOs provide services in many fields including humanitarian aid, community and economic development, human rights, civil society, elections, health, and basic social services. However, activities, programs and area of coverage are generally determined by donor priorities and not the needs of

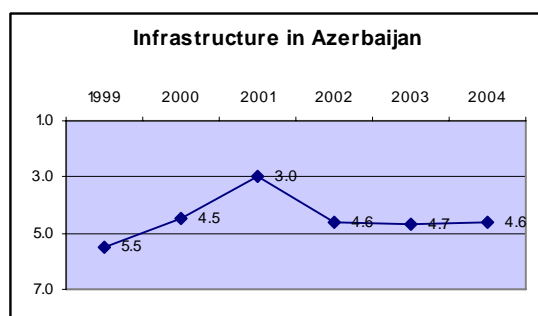
constituencies. Organizations have begun to conduct more needs assessments and surveys to increase the quality of their proposals, and in a few instances, their assessments have led to modifications of donor priorities.

Few NGOs charge fees for their services. Many NGO leaders hold on to the belief

that their non-profit status and the economic conditions of their constituents make it inappropriate to charge for their services. There are, however, a few examples of organizations charging fees to cover their operating expenses, e.g., organizations that provide computer or English classes, or similar services.

INFRASTRUCTURE: 4.6

NGOs have access to a number of resource centers located around the country. Unfortunately, most resource centers are only able to provide basic services such as libraries, computers, and photocopying. Only a few resource centers, located primarily in the capital, offer more technical services such as legal aid, donor information, or tax assistance. The Azerbaijan Human Rights Foundation recently established the League of Regional Resource Centers (LRRC) to increase the quantity and quality of services offered outside the capital. To accomplish this, the LRRC has created an information and experience exchange, and offers grants to support the activities of their six resource centers.



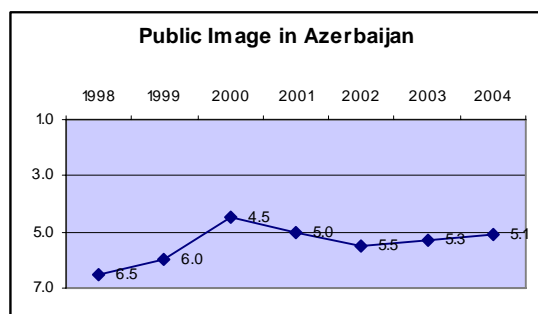
The internet is becoming an important information resource for Azerbaijani

NGOs, who increasingly have access to computer equipment and internet access. The most popular resources are the Open Society Institute's site "Azerwed" (www.azerweb.com), and the Society for Human Research's site (www.ngo-az.org), which is supported by USAID and CRS. These two sites provide information about NGO activities, grant and training opportunities, and job postings.

Most NGO leaders consider the available training resources to be sufficient, though they have identified two shortcomings. First, the majority of training programs are located in the capital, and the few resources that are available in the rural areas do not offer the same broad range of topics. Second, some training programs have been offered by international organizations whose training materials are out of context or unprofessional. NGO representatives would like training programs to employ more qualified Azerbaijanis, and to further develop the capacity and experience of trainers from rural communities so that they may increase the training resources in the rural areas.

PUBLIC IMAGE: 5.1

The quality and quantity of the media's coverage of NGOs depends on the type of organization, the geographic area of their activities, and their media relations skills. Most NGOs have stronger relations with print media than they do with broadcast media, which is more expensive and has little interest in NGO activities. Many in the NGO community still do not trust the media, especially those in broadcast who have at times been unprofessional in their coverage. However, organizations do recognize that the media is an important vehicle for promoting their activities and informing the public about who they are. NGOs do employ media relations strategies, but most still lack the skill and experience to develop and implement effective strategies that will improve their public image.



The general public's opinion and awareness of NGOs and their activities remains low. NGOs have reached out to the public via brochures, press releases, and other media outlets, but with little success. The donor community, especially the CRS ACSD project, has funded projects to increase

media coverage and public opinion, including a six month public awareness campaign, and community meetings and roundtable discussions. Other national NGO coalition partners have contributed to these efforts, giving those in the NGO community hope that public opinion and awareness will improve.

Many in the NGO community are concerned that the actions of a few NGO leaders following the October 2003 presidential campaigns damaged the image of the entire NGO sector. Even if these NGO leaders were acting as individuals, independent of their NGOs, they were viewed by the public as members of the NGO sector. Their actions have made it difficult for others within the NGO community to establish themselves as credible and non-partisan.

The government's overall opinion of the NGO sector is improving, though still unfavorable. Relationships between NGOs and the government vary according to the organization and agency involved. The government has yet to consider the NGO community as a resource, either as service providers or sources of information and expertise. A few government officials have requested information from NGOs, or have responded to NGO queries for information, but they are still rare. At the local level, authorities have at times conducted joint activities with NGOs though it is often limited to assisting with logistics and recruiting volunteers.